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TAGS: ECPS ETRD FR
SUBJECT: France: Telecom and Information Technology Update

¶1. This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

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-- FT's dwindling subscribers base (para 4);
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-- Vivendi break-up proposal rejected (para 7);
-- Picking winners - Quaero and TVMSL get GOF R&D funding (para 8).

¶2. France Telecom is Europe's largest single broadband provider: With 7.6 million broadband subscribers at the end of 2005, France Telecom remains the largest broadband service provider in Europe, according to the latest Strategy Analytics Broadband Service Provider Subscriber Database. At the end of 2005, the 76 service providers in the database accounted for more than 52 million broadband subscriptions in 20 European countries, an increase of 53 percent from the same period in 2004. This represents 86 percent of the total 2005 European broadband market.

¶3. France Telecom seeking revision of E.U. regulations: France Telecom (FT) has asked the European Union to scrap regulations drawn up in the 1990s, saying they discourage the Continent's incumbent operators from investing in new networks. FT is asking for a complete phase out of current regulations by 2012. The company is proposing limiting fixed-line regulation on the wholesale market, while changing wholesale regulation in the mobile market to foster the growth of network operators rather than virtual operators, or MVNOs. FT has written the E.U. saying that the current regulation, which aimed to enhance competition, has contributed to the decline of Europe's high-tech sector.

¶4. France Telecom's dwindling subscribers base: France Telecom is losing customers in droves. About 1.5 million fixed-line contracts are expected to be cancelled in 2006 as clients desert to cheaper bundled service offers rather than pay FT's monthly subscription fee. Figures from ARCEP, the telecom regulator, showed France Telecom's cancellation rate is running at 30,000 subscribers a week, compared with 10,000 in December, as clients take up offers from the likes of Neuf Cegetel, Free or Club Internet. Rental line income brought in 4.2 billion euros last year, more than the billings from calls themselves. Over 3 million households have picked an alternative operator, of which 30 percent have completely opted out, compared with 7 percent a year earlier. Rival operators made inroads by offering cheaper call tariffs and bundling them with competitive rates for broadband internet access. FT's Wanadoo broadband service still holds the dominant market share, with 4.5 million subscribers, followed by 1.6 million with Free and 1.2 million at Neuf Cegetel. FT, however, played down the figures, saying the cancellations represented 3.5 percent of the residential fixed-line market.

¶5. FT responds to fierce domestic competition: FT has announced plans to sell an internet dedicated service called ADSL Only to alternative operators. The new service would be a wire connection but without a normal phone service and would be sold solely for internet use and would be free of the phone rental charge. The service could be used for internet calls, under the voice over internet protocol (VOIP) system, pioneered by Skype. FT also aims to develop the so-called quadruple-play package, combining voice, internet, television and mobile phone. The company further intends to phase out the Wanadoo name and merge its service under the Orange mobile brand.

¶6. France's All-Digital Television Policy: Following up on his New Year's pledge to ensure that France is "one of the most advanced nations in digital technology," French President Jacques Chirac recently unveiled a new "Strategic Digital Committee" to carry out the new strategy. A cornerstone of this strategy is that HDTV be deployed throughout France by 2011. The new committee is chaired by the Prime Minister and includes the Ministers of Culture and Industry as well as the chairmen of telecom regulator ARCEP and television regulator CSA. President Chirac has also expressed hope that, in time, the two regulators would merge. According to one of our contacts, the controversial merger is now a fait accompli given Chirac's endorsement, although CSA staff was chagrined by his pronouncement.

¶7. Vivendi break-up proposal rejected: French media and telecom group Vivendi recently rejected a shareholder's proposal to break up the company, adding that its conglomerate strategy should generate higher earnings this year than previously forecast. The supervisory and management boards of the group said they rejected the proposal by Monaco-based private equity firm Sebastian Holdings, because it was "based on economic and legal hypotheses that are unrealistic." The plan, which was backed by Deutsche Bank and Bank of America, involved a sale of the company's telecom and pay-television operations and a leveraged buyout of the remainder of the assets, according to press reports. The French company - whose operations include pay-TV broadcasting, computer gaming, music, and wireless services - reported a 41 percent rise in first-quarter net profit, boosted by strong growth at its music and games businesses. The group intends to pursue its strategy of combining its media and telecom businesses.

¶8. Picking winners - Quaero and TVMSL get GOF R&D funding: In late-April, President Chirac announced that the French Agency for Industrial Innovation will fund some 15 large R&D projects this year with 1.7 billion euros in state aid (see Paris 2747 for more details). Of the five initial R&D projects announced, two are focused on information and communication technologies (ICT). Each project will involve shared public-private sector risk, with a major French company leading the project and working in tandem with small and medium-sized firms and public research labs. The projects are designed to produce marketable technologies within five years. The first major information technology project is Quaero, a Franco-German effort to develop multimedia applications, including a Google-type search engine, for which the lead company will be Thomson. The Quaero project will receive 90 million euros in GOF state aid, although the German Government, Thomson and other participating companies are expected to contribute toward the total expected project cost of 250 million euros. The other major information and communications technology project is TVMSL which aims to develop a new television standard for mobile phones. The lead company for TVMSL is Alcatel. The TVMSL project will receive 38 million euros in state aid toward a total expected cost of 98 million euros.

Stapleton